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WATER/SNR/PTL/HJL/jlj

AGENDA ITEM #4714

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Branch**

**RESOLUTION No. W-4548
JULY 21, 2005**

R E S O L U T I O N

(RES. W-4548), MOUNTAIN SPRINGS WATER CO. (MOUNTAIN SPRINGS). ORDER AUTHORIZING A GENERAL INCREASE IN RATES PRODUCING \$5,490 OR 20.18% ADDITIONAL ANNUAL REVENUE.

SUMMARY

By Draft Advice Letter accepted on December 6, 2004, Mountain Springs seeks an increase in rates for water service to earn a return on additions to plant and to recover increased expenses of operation. For Test Year 2005, this resolution grants an increase in gross annual revenues of \$5,490 or 20.18%, which is estimated to provide a 13.15% rate of return on rate base.

BACKGROUND

Mountain Springs, a Class D water utility, has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$21,375 per year or 76%. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. The last general rate increase for Mountain Springs was granted on December 12, 2000, pursuant to Res. W-4236 which authorized a general rate increase of \$2,837 or 10.95%. Mountain Springs' request shows that its gross revenue of \$28,125 at present rates would increase to \$49,500 at proposed rates.

Mountain Springs is a California corporation providing water service to the community of Tract 3312, Kern County, in the vicinity of Sand Canyon Road approximately seven miles north of State Route 58 between Cameron and Monolith. Mountain Springs' owner and president is Mrs. Cora Jane Hainline. Mountain Springs came under the jurisdiction of the CPUC in 1995 pursuant to Decision No. (D.) 95-07-008. The records indicate that Mrs. Hainline, the present

owner, purchased the water company for \$25,470. Mountain Springs has 41 active metered connections. There are approximately 12,559 feet of mains, one 12,500-gallon tank, one 5,000-gallon tank, and two 52-gallon pressure tanks. There is only one well with a 5-hp submersible pump with a 45-gallons per minute pumping capacity. Mountain Springs does not have any standby source or emergency connection to another water purveyor.

DISCUSSION

The Water Branch (Branch) made an independent analysis of Mountain Springs' summary of earnings. Appendix A shows Mountain Springs' and the Branch's estimates of the summaries of earnings at present, requested, and adopted rates for Test Year 2005 and the differences between Mountain Springs' and the Branch's estimates of operating expenses.

The Branch's auditor conducted a field visit of Mountain Springs to verify its plant in service and calculated the average gross plant in service was \$137,143 for 2004. During the period 1989 to the present, the owner has lent Mountain Springs a total of \$21,042; out of which \$4,642 was lent prior to CPUC's regulating the water company in 1995. The loan was spent in adding plant, but the plant additions were not recorded in the books. The Branch considers that loan money \$16,400 spent after 1995 ($\$21,042 - \$4,642 = \$16,400$) in plant additions should be recorded. In addition, \$9,931 of contract work expensed by Mountain Springs in 2003 is capitalized by the staff and included in rate base. The staff estimates that at the end of 2004 the average plant was \$163,474 ($\$137,143 + \$16,400 + \$9,931 = \$163,474$).

Mountain Springs installed a 5,000-gallon tank in 2001. It is equipped with two lines. One line goes to Mrs. Hainline (Owner of Mountain Springs and a customer), and the other line serves as a backup to the Mountain Springs 12 customers. Because the 13 customers' homes are at a higher elevation, a booster pump was installed to pump water to the 5,000-gallon tank. A backflow valve was installed underground to prevent water flow back to the booster pump. Customers not served by the tank can obtain water during emergencies from the tank.

The Water Division's recommended rate of return on rate base for Class D water companies is 13.15%. D.92-03-093 and Res. W-4524 dated March 17, 2005 requires the Branch to calculate rates using both return-on-rate-base and the rate of margin methods, more properly called the rate of margin, for Class C and D water companies and use the method that produces the higher result. The Water Division recommends the operating ratio of 25% for Class D water utilities.

Branch found that using an operating ratio of 25% produced a revenue requirement of \$28,278. The rate of return method produces the higher revenues of \$32,700. Therefore, the Branch chose the rate of return method. Based on current rates, Mountain Springs' annual revenue is \$27,210 for Test Year 2005. At the recommended rate of return, the revenue is \$32,700, an increase of \$5,490 or 20.18%.

Mountain Springs was informed of Branch's differing views of expenses and stated that it agrees with the Branch's findings.

Mountain Springs' filed tariffs contain one schedule of rates for General Metered Service. At the Branch's recommended rates shown in Appendix B, the monthly bill for a residential customer using five hundred thirty cubic feet of water will increase from \$53.28 to \$64.42 or 20.91%. A comparison of customer bills at present and adopted rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

NOTICE AND PROTESTS

A notice of the proposed increase in rates and of a public meeting was mailed to each customer on December 10, 2004. The Branch received six letters and 14 e-mails objecting to the magnitude of the increase.

On January 11, 2005, the Branch held a public meeting at the Clubhouse of the Willow Springs Trailer Park in Tehachapi. The Branch's representative explained the Commission's rate-setting procedure and the utility's representative explained the need for the increase. Seventeen people attended; most of whom were concerned with (1) the magnitude of the rate increase, (2) drop in the water table, and (3) excessive water use by large customers.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. However, Mountain Springs failed to revise Rule No. 14.1 to reflect the revised language in D.91-10-042.

COMMENTS

Mr. John Koresko sent the Water Division numerous e-mails and correspondence. He alleged that the 5,000-gallon tank installed in 2001 was dedicated solely to serve Mrs. Hainline's home. Staff verified that Mr. Koresko's allegation was baseless. The tank was installed to serve Mrs. Hainline and serve as a backup to 12 other customers located at an elevation higher than the main service area. A booster pump was installed to pump the water to the 5,000 gallon tank. A backflow valve was installed underground to prevent water flow back to the booster pump.

Mr. Koresko also conjectured that Mountain Springs was a gift to Mrs. Hainline and therefore the original rate base should be zero. However, documents discovered by the staff revealed that in Case No. 94-11-011, the Division of Ratepayer Advocates located records that show Mrs. Hainline purchased the water company for \$25,470. Mr. Koresko also contended that Mrs. Hainline wanted to receive a general rate increase in order to attract buyers interested in the sale of Mountain Springs. The staff reassured him that the WD would review any application for sale and transfer before such transaction can take place.

FINDINGS AND CONCLUSIONS

1. The Branch's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. Mountain Springs should update Rule No. 14.1 in its tariff book to reflect the revised language in D.91-10-042.

5. The rate increase proposed by the branch is justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Mountain Springs Water Company to file an advice letter incorporating the Summary of Earnings and revised rate schedule attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of filing.
2. Mountain Springs Water Company shall update the Rule 14.1 in its tariff book, and submit the updated Rule to the Water Division by July 31, 2005.
3. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on July 21, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

APPENDIX A

Mountain Springs Water Company
Summary of Earnings- Test Year 2005

	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Adopted</u>
	<u>Present</u>	<u>Requested</u>	<u>Present</u>	<u>Requested</u>	
	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
OPERATING REVENUES					
Metered	\$27,635	\$49,500	\$27,210	\$32,700	\$32,700
Other Revenue	490	-	-	-	-
TOTAL REVENUE	28,125	49,500	27,210	32,700	32,700
OPERATING EXPENSES					
Purchased Water	-	-	-	-	-
Power	1,374	1,374	1,374	1,374	1,374
Other Volume Related Expense	298	298	298	298	298
Employee Labor	-	-	-	-	-
Materials	1,252	1,252	1,252	1,252	1,252
Contract Work, Water Testing	1,942	1,942	1,942	1,942	1,942
Contract Work, Other	9,931	9,931	-	-	-
Transportation Expense	5,906	5,906	2,953	2,953	2,953
Other Plant Maintenance	291	291	291	291	291
Office Salaries	-	-	-	-	-
Management Salaries	704	704	704	704	704
Employee Pensions & Benefits	-	-	-	-	-
Uncollectibles	543	543	543	543	543
Office Service & Rentals	337	337	337	337	337
Office Supplies	4,240	4,240	1,449	1,449	1,449
Professional Services	2,248	2,248	1,500	1,500	1,500
Insurance	1,893	1,893	1,893	1,893	1,893
Regulatory Expense	533	533	400	400	400
General Expense	1,681	1,681	220	220	220
Subtotal	\$33,173	\$33,173	\$15,156	\$15,156	\$15,156
Depreciation Expense	2,071	2,071	2,071	2,071	2,071
Taxes Other Than Income	840	840	-	-	-
State Tax	-	-	-	1,368	1,368
Federal Income Tax	800	1,835	69	2,116	2,116
Total Deductions	\$36,884	\$37,919	17,296	20,711	20,711
NET REVENUE	(\$8,759)	11,581	\$9,914	\$11,989	\$11,989
Rate Base :					
Average Plant	\$168,116	\$168,116	\$163,474	\$163,474	\$163,474
Avg. Accumulated Depreciation	31,568	31,568	31,568	31,568	31,568
Net Plant	136,548	136,548	131,906	131,906	131,906
Less: Advances	-	-	-	-	-
Contributions	40,730	40,730	40,730	40,730	40,730
Plus: Working Cash	-	-	-	-	-
Deferred Income Taxes	-	-	-	-	-
Unamortized Investment Tax	-	-	-	-	-
Rate Base	95,818	95,818	91,176	91,176	91,176
Rate of Return	-9.14%	12.1%	10.9%	13.15%	13.15%

APPENDIX B

Mountain Springs Water Company

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service rendered on annual basis.

TERRITORY

Tract 3312, Kern County, in the vicinity of Sand Canyon Road approximately seven miles north of State Route 58 between Cameron and Monolith.

RATES

	Per Meter	
	<u>Per month</u>	
Quantity Rate:		
All Water, per 100 cubic feet	\$ 3.10	(I)
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 48.00	(I)
For 3/4-inch meter	72.00	
For 1-inch meter	120.00	
For 1-1/2-inch meter	240.00	
For 2-inch meter	384.00	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is added the charge for water used computed at the Quantity Rates.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

APPENDIX C

Mountain Springs Water Company

COMPARISON OF RATES

A comparison of the present and AB's recommended rates is shown below:

General Metered Service:

	<u>Per Meter per Month</u>		
	<u>Present</u>	<u>Adopted</u>	<u>Increase</u>
For 5/8 x 3/4-inch meter	\$ 39.66	\$ 48.00	21.03%
For 3/4-inch meter	59.49	72.00	21.03%
For 1 - inch meter	99.16	120.00	21.02%
For 1-1/2- inch meter	198.32	240.00	21.02%
For 2 - inch meter	317.30	384.00	21.02%

Quantity Charge:

For all water, per 100 cu. ft	\$2.57	\$ 3.10	20.56%
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A comparison of monthly bills for a customer with a 5/8 x 3/4-inch meter using various quantities of water is shown below:

<u>Consumption in Ccf</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Increase</u>	<u>Percent</u>
0	\$ 39.66	\$ 48.00	\$ 8.34	21.03%
3	47.37	57.30	9.93	20.95%
5	52.51	63.49	10.98	20.91%
Avg. 5.3	53.28	64.42	11.14	20.91%
10	65.36	78.98	13.62	20.85%
20	91.06	109.97	18.91	20.77%

APPENDIX D

Mountain Springs Water Company
ADOPTED QUANTITIES
Test year 2005

Purchased Water	None
Estimated water pumped	2,625 Ccf
Purchased Power	8,154 kWh
Southern California Edison Company	
Schedule No.	GS-1
Adopted cost per kWh	\$0.01685
Total Expense	\$1,374

Service connections:

5/8 x 3/4-inch meter	37
3/4-inch meter	4
1-inch meter	0
1 1/2-inch meter	0
2-inch meter	0
Total	41

INCOME TAX CALCULATION

	<u>State Tax</u>	<u>Federal Tax</u>
Operating Revenue	\$32,700	\$32,700
Operating expenses	15,156	15,156
Property Tax	0	0
Payroll Taxes	0	0
Depreciation	2,071	2,071
Franchise Tax	<u>0</u>	<u>0</u>
Taxable Income for State Tax	\$15,473	
State Tax at 8.84%	1,368	
Taxable income for Federal Tax		\$14,105
Federal Tax at 15%		2,116
Total Income Taxes		\$3,484